DYNACAST (MELAKA) SDN BHD & ORS A

v.

VISION CAST & ANOR

HIGH COURT MALAYA, KUALA LUMPUR B
VINCENT NG J
[SUIT NO: D1-22-362-2005]
6 SEPTEMBER 2007

CIVIL PROCEDURE: *Injunction - Interim injunction pending disposal of suit - Restraint of trade - Application to restrain former employee from engaging in same business - Triable issues - Balance of convenience - Contracts Act 1950, s. 28* C

CONTRACT: *Restraint of trade - Agreement - Service Contract - Application for injunction - Triable issues - Contracts Act 1950, s. 28* D

The plaintiffs, who were trading in die casting business, had employed the second defendant first as a Quality Assurance Manager and later as Regional Director for their Asia Pacific Region operations. In 2002, the second defendant resigned from his posting and, together with the first defendant, embarked on the same die casting business. The plaintiffs alleged that the second defendant, in embarking upon such business, had breached his fiduciary obligations to the plaintiffs and infringed the plaintiffs' intellectual property right, and in the circumstances sued the defendants in that respect. And, pending that, the plaintiffs filed the present application principally to restrain the defendants from infringing their right above by using the information and trade secrets which allegedly belonged to them. The facts showed that as an employee of the plaintiffs, the second defendant had *inter alia* executed the Employees Confidentiality Agreement ('exh. E') and the Deed of Restrictive Covenant ('exh. F') with the plaintiffs. That being so, before the learned judge herein, a question arose as to whether on the facts and in the circumstances, an injunction should appropriately issue against the second defendant. E F G

Held (allowing injunction): H

(1) Upon the conflicting contentions by both parties, the serious issue that falls to be determined at the full trial is whether the die casting method or technology employed by the defendants in the manufacture of their products, which are similar to the plaintiffs', is within the public domain - or whether such products could only be manufactured by using the trade secrets and information belonging to the plaintiffs. Also, besides the issues of whether the second I

defendant held any real access to any trade secrets and whether the notice of termination of service requirement has been waived, the further issue is whether the defendants had infringed the copyright-property of the plaintiffs in producing their brochures. Of pertinent consideration is the uncontroverted fact that the second defendant had signed exhs. E and F, and that the defendants have not seriously challenged the plaintiffs' contention that the defendants had employed similar die casting methods to manufacture their products. In the circumstances, there are serious questions to be tried and the plaintiffs' case is not frivolous or vexatious. (para 11)

(2) Surely, if the information and trade secrets as well as copyright-property which are rightfully owned by the plaintiffs have been infringed, the plaintiffs cannot be restored in its original position, as such information and trade secrets which require safeguard and protection would cease to be a secret, with the grave consequence that the plaintiffs cannot be compensated in damages. Indeed the issue whether the breach occurred after or before the contractual period of the restriction as raised by the defendants would require investigation at the trial of the plaintiffs' claim, since it has not been challenged that the first defendant are also engaged in the die casting business which involves specialized knowledge and secret information. Hence, the balance of convenience in granting the injunction tilts in favour of the plaintiffs. (para 13)

Case(s) referred to:
American Cyanamid Co v. Ethicon Ltd [1975] AC 396 ***(refd)***
Keet Gerald Francis Noel John v. Mohd Noor & Ors [1995] 1 CLJ 293 CA ***(refd)***

Legislation referred to:
Contracts Act 1950, s. 28

For the plaintiffs - YY Ho (Rajendra Navaratnam with him); M/s YY Ho & Assoc
For the defendants - Johanan Puthucheary; M/s Nadzarin Kuok Puthucheary & Tan

Reported by Wan Sharif Wan Ahmad

JUDGMENT

Vincent Ng J:

The Plaintiffs' Application

[1] Encl. 4 is an *inter partes* application by the plaintiffs for injunctive relief. The plaintiffs prays for *inter alia*, the following orders;

(i) an injunction to restrain the defendants from using or disclosing confidential information with regard to trade secrets set out in the Employees Confidentiality Agreement (exh. E) and in the Deed of Restrictive Covenant (exh. F);

(ii) an injunction to present and infringement of the plaintiff's copyright in relation it business from being distributed to the public without it prior authorization and consent; and;

(iii) an injunction based on a breach of fiduciary duty restraining the usage or disclosure of any confidential information in regard to trade secrets set out in exhs. E and F.

[2] Thus, the principal prayer of the plaintiffs' application is to injunct the defendants from *inter alia* using or disclosing certain trade secrets and information and copyright property allegedly belonging to the plaintiffs until the final disposal of this suit.

The Plaintiffs' Case

[3] The 3rd plaintiff is a company based and incorporated in the United Kingdom. The 1st plaintiff and the 2nd plaintiff are subsidiary companies of the 3rd plaintiff. The 1st plaintiff is incorporated under Malaysian law and the 2nd plaintiff is a company incorporated in Singapore. Since 8 March 1978 the plaintiffs have been involved in the die casting industry and claim to be one of the leading companies in that field, in which substantial amount of money has been incurred by them in developing the technology for their business. The 2nd defendant worked for the 2nd plaintiff company as a quality assurance manager in or about February 1980. Before resigning from the 2nd plaintiff company in July 2002, his last position was regional director overseeing the operation and management of the Asia Pacific region of the 3rd plaintiff's group of companies. The plaintiffs contend that the 2nd defendant was a key person in developing the core value and mission statement of the plaintiffs. He also played an active role in developing the plaintiffs' website as well as designing the promotional leaflets featuring the photographs and drawing of the plaintiffs' products.

[4] On or about 15.7 the 2nd defendant executed exh. E, wherein he expressly recognized the plaintiffs' confidential information and agreed not to use them other than in the business of the plaintiffs, or to disclose or make available to anyone outside the plaintiffs organization without prior written approval from the plaintiffs. Again, on or about 20 October 1999, the 2nd defendant executed exh. F, wherein he covenanted with the plaintiffs that he would not, during the tenure of his office with the plaintiffs, take away or retain the plaintiffs' secret information for his

own benefit. He also agreed to prevent the publication or disclosure of any trade secret or confidential information concerning the plaintiffs' affairs at any time during the period of 12 months following the termination of his employment with the plaintiffs.

[5] It is the plaintiffs' case that the 2nd defendant had by virtue of his prominent and important position in the plaintiffs group of companies spanning a period of 22 years, acquired certain trade secrets and privileged information, in particular, of the die casting business which are intellectual property rights belonging to the plaintiffs. The plaintiffs assert that the 2nd defendant owes a fiduciary duty not to gain any financial advantages and benefits by utilizing the plaintiffs' trade secrets and intellectual property rights upon termination of his office with the plaintiffs. The plaintiffs also contend that 2nd defendant must surrender to them all materials, which are protected under the two agreements in exh. E and F and not to use those materials upon ceasing his contractual employment with the 2nd plaintiff. And, that 2nd defendant had failed to observe his fiduciary duties and obligation after his resignation from the 2nd plaintiff. Instead, the 2nd defendant joined the 1st defendant, a company that is involved in the same business as the plaintiffs and thus, a competitor of the plaintiffs. More importantly, the 2nd defendant owned equity interest in the 1st defendant. The plaintiffs allege that the 2nd defendant has used trade secrets and property rights of the plaintiffs in discharging his tasks with the 1st defendant including producing the defendants promotional brochures which contained materials allegedly copied from the plaintiffs. Thus, the defendants action in publishing the brochure constituted evidence that the plaintiffs' intellectual property rights have been infringed. It is the plaintiffs' contention is that the 2nd defendant's actions are in breach of the fiduciary duties that he owes to the plaintiffs.

The Defendants' Case

[6] The 2nd defendant does not deny that he was formerly the regional director for Asia-Pacific region of the plaintiffs but says that that designation was not vested with any real executive powers. He asserts that he had only the nominal power of a functionary, and that he tendered his letter of resignation on or about 29 April 2002. He further deposes in his affidavit that the plaintiffs had agreed to accept his unconditional resignation and to waive the previous contracted requirement of having to furnish a written notice of termination of service at least six months prior to his resignation, and hence he was deemed to have been released early, that is on 30 June 2002. He says that under the termination agreement in relation to his employment entered with the plaintiffs he had only agreed not to be engaged in,

concerned with or interested in any business similar to the plaintiffs at any time during six months after 30 June 2002. However since 1st defendant was incorporated on or about 9 October 2003, his involvement with the 1st defendant occurred well after the six months period subsequent to 30 June 2002. It would thus follow that after that six months period of time, the defendants, and in particular the 2nd defendant, are free to engage in any business enterprise. The 2nd defendant also claims that before he joined the 1st defendant (upon his resignation from the plaintiffs) a company called G.T. Industrial Singapore employed him from 1 July 2002 until September 2003. And, when the 1st defendant was incorporated (in or about 9 October 2003) he was appointed as one of it directors. The 2nd defendant further states that the restriction of trade imposed on him in exh. F is null and void for falling foul of the general prohibition against restraint of trade in s. 28 of the Contracts Act 1950.

The Law On Interim Injunction

[7] The principles whether or not to grant an interim injunction has been established in a patent infringement case of *American Cyanamid v. Ethicon* [1975] 1 All ER 504 (American Cyanamid) as follows:

i. Serious question to be tried.

ii. Whether damages could constitute an adequate remedy if the injunction is not granted.

iii. Balance of convenience lies in favour of granting the injunction.

iv. If balance appears even, to consider preservation of *status quo*.

v. And if this seems even, consider the relative strengths of each party's case.

vi. Most importantly, at this early stage of the proceedings, the court must mindful that the relative strengths of each party's case should be considered only on a *prima facie* basis without dealing with the existing evidence in detail and giving reasoned assessments of the court's views - that is, to try to resolve conflict of evidence on affidavits.

[8] The current position in both the U.K. and Malaysia on the law pertaining to interim injunction is the same ie, the principles enunciated in *American Cyanamid* case are still good law in Malaysia and have been consistently affirmed. See also *Keet Gerald Francis Noel John v. Mohd Noor & Ors* [1995] 1 CLJ 293.

In the case of *Keet Gerald Francis Noel John v. Mohd Noor & Ors* [1995] 1 CLJ 293, the Court of Appeal sets out the following that a judge should focus his mind on when hearing an application for interlocutory injunction: firstly, whether the totality of the facts presented discloses a *bona fide* serious issue to be tried; secondly, if the issues disclosed require further investigation, a judge must then consider where the justice of the case lies, and in making his assessment he must take into account all relevant matters including the practical realities of the case; and thirdly, the judge must have at the forefront of his mind that the remedy he is asked to administer is a discretionary one, intended to produce a just result for the period between the date of the application and the trial proper, so as to maintain the *status quo*.

Rationale Of This Court

[10] The plaintiffs claim that they are one of the leading companies in the world with their cutting edge technologies in precision die casting. The defendants refuted the plaintiffs' claim and respondent that their products were not manufactured through the use of trade secrets and information obtained by the 2nd defendant while working with the plaintiffs. The defendants further claim that they had bought several machineries from Taiwan for which they have a patent certificate for producing the same items manufactured by the plaintiffs. Thus, it was submitted by the defendants that it couldn't be cogently argued that the same if confidential and outside the public domain.

[11] Based on the conflicting contention by both parties, the serious issues for this court's determination at the full trial is whether the die casting method or technology employed by the defendants in the manufacture of their products, which have similar to the plaintiffs, are within the public domain, or such products could only be manufactured using the trade secrets and information belonging to the plaintiffs. Also, besides the issues whether that 2nd defendant held any real access to any trade secrets, the notice of termination of service requirement has been waived, the further issue for determination is whether the defendants had infringed the copyright-property of the plaintiffs in producing their brochures. Of pertinent consideration is the uncontroverted fact that the 2nd defendant had signed exh. E and F. And, that the defendants have not seriously challenged the plaintiffs' contention that the defendants' also employ similar die casting methods to manufacture their products. This court must bear in mind that it should not, at this stage of the proceedings, be dealing with the existing evidence in detail and giving reasoned assessments to resolve conflicts evidence in the affidavits. In such circumstances, I am entirely satisfied that the plaintiffs' case is not frivolous or vexatious, as there are serious

questions to be tried. As distinctly stated by Lord Diplock in *American Cyanamid Co v. Ethicon Ltd* [1975] AC 396:

> It is no part of the court's function at this stage of the litigation to try to resolve conflicts of evidence on affidavits as to facts on which the claims of either party may ultimately depend not to decide difficult questions of law which call for detailed argument and mature considerations.

[12] Applying the test as set out in *American Cyanamid*, the next issue is that of adequacy of damages to be compensated for the loss that the plaintiffs would have sustained - as a result of the defendant's continuing to do what was sought to be restrained between the time of this application and the time of the trial - should the injunction be denied. If damages, in the measure recoverable at common law, be adequate remedy and the defendant would be in a financial position to pay them, no interlocutory injunction should normally be granted, however strong the plaintiffs' claim appear to be at this stage.

[13] In the present case, the plaintiffs have sought to restrain the defendants from infringing, by using the information and trade secrets which allegedly belong to them. Surely, in my considered opinion, if the information and trade secrets as well as copyright - property which are rightfully owned by the plaintiffs have been infringed, the plaintiff cannot be restored in it original position, as such information and trade secrets which require safeguard and protection would cease to be a secret, with the grave consequence that the plaintiffs cannot be compensated in damages. Indeed, the issue whether the breach occurred after or before the contractual period of the restriction as raised by the defendants would require investigation at the trial of the plaintiffs' claim, since it has not been challenged that the 1st defendant are also engaged in the die casting business which involves specialized knowledge and secret information. Hence, I find that the balance of convenience in granting the injunction sought for tilts in favour of the plaintiffs.

[14] In the event, I was satisfied that there was a clear need to preserve the *status quo* till the disposal of the present suit. Consequently, prayers (i)(a), (b) and (c) and (ii) in encl. 4 ought to be and was allowed with costs.